

BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

July 18, 2000

IN RE:

**APPLICATION OF CHATTANOOGA GAS COMPANY
FOR APPROVAL OF NEGOTIATED CONTRACT WITH
E. I. DU PONT DE NEMOURS COMPANY**

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**DOCKET NO.
99-00908**

**ORDER APPROVING APPLICATION FOR APPROVAL OF NEGOTIATED
CONTRACT WITH E. I. DU PONT DE NEMOURS COMPANY**

This matter came before the Tennessee Regulatory Authority (the "Authority") at a regularly scheduled Authority Conference held on February 1, 2000, for a decision on the Application (the "Application") of Chattanooga Gas Company ("Chattanooga" or the "Company") for approval of a Negotiated Contract between Chattanooga and E.I du Pont de Nemours Company ("du Pont").

Background

Chattanooga filed its Application on November 29, 1999. The Application states that du Pont is a Delaware corporation which operates a manufacturing plant located at 4501 North Access Road, Chattanooga, Tennessee. Chattanooga currently provides natural gas services to the du Pont plant under the terms of Chattanooga's tariff TRA No. 1, Schedule T-1, dated October 12, 1998. On or about August 20, 1998, du Pont notified Chattanooga that it intended to bypass Chattanooga by constructing a pipeline from its plant to a new direct point of interconnection, to be located on the property of du Pont's plant, with East Tennessee Natural Gas Company ("East Tennessee"). On or about

February 17, 1998, East Tennessee filed with the Federal Energy Regulatory Commission (“FERC”) a Notice of Request of Blanket Authority in which East Tennessee sought authority from FERC to install and operate a new delivery point for du Pont which would enable du Pont to bypass Chattanooga.

The Application further states that such a bypass would deprive Chattanooga of all of the transportation revenue it currently receives from du Pont, resulting in a shifting of such revenue requirements to other Chattanooga customers. Consequently, Chattanooga negotiated with du Pont to reach a fair and reasonable rate that would avoid the threatened bypass and permit Chattanooga to retain du Pont’s revenue contribution to Chattanooga’s fixed costs. On November 22, 1999, Chattanooga and du Pont entered into a Negotiated Contract under which du Pont will acquire third party gas supplies, transport or cause to be transported those gas supplies through interstate pipeline facilities to Chattanooga’s interconnection with the pipeline, and have Chattanooga redeliver the gas supplies through Chattanooga’s natural gas distribution system to du Pont’s plant.

As stated in the Application, in Docket No. 97-00982, the Authority approved as part of Chattanooga’s gas tariff, TRA No. 1, an Interruptible Margin Credit Rider (“IMCR”) whereby ninety percent (90%) of the gross profit margin losses resulting from negotiated rates to meet competitive rates of alternative fuels would be recovered by the Company. Chattanooga proposes to recover such losses from the Negotiated Contract with du Pont in accordance with the IMCR.

Finally, the Application states that approval of the Negotiated Contract with du Pont is necessary and in the best interests of the other customers of Chattanooga and will prevent an uneconomic bypass of Chattanooga.

This matter came before the Authority at a regularly scheduled Authority Conference held on January 25, 2000. At that Conference, the Directors unanimously approved the Negotiated Contract. However, the Directors posed certain questions for Chattanooga about the use of the IMCR for recovery of lost margin. It was noted that the IMCR previously approved for the Company applies by its terms to commodity sales, not transportation sales as in the Negotiated Contract. Therefore, the issue of recovery of lost margin was reserved for the next Conference in order to allow Chattanooga to explain the use of the IMCR for du Pont. Chattanooga was requested to file any material it wished to in support of the recovery issue. Accordingly, by letter dated January 26, 2000, Chattanooga filed supplemental information in support of its position on the recovery issue.

As explained in the supplemental information filed by Chattanooga, the IMCR is typically applied to monthly sales of gas or transportation services to Chattanooga's customers who have alternative fuel capabilities. The IMCR allows the Company to negotiate the most favorable monthly rate with these customers and recover ninety percent (90%) of its lost margin. The IMCR thus allows Chattanooga to address competition with alternative fuels on a monthly basis. It replaced earlier methods that required regulatory approval for each effort at recovery.

As further explained in Chattanooga's supplemental information, the IMCR, as applied in Chattanooga's SS-1 tariff, allows the Company to recover ninety percent (90%) of its lost margin from both sales and transportation customers. The IMCR was not designed to work with long-term contracts such as the Negotiated Contract under consideration between Chattanooga and du Pont. Therefore, Chattanooga has asked for

separate and specific authorization to recover its margin losses in the same fashion with regard to the Negotiated Contract as it typically does on a monthly basis with the IMCR.

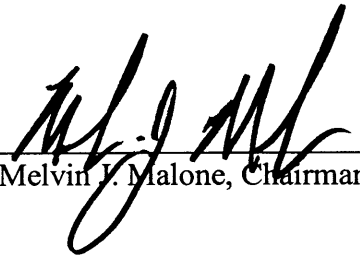
On February 1, 2000, Chattanooga's Application again came before the Authority at a regularly scheduled Authority Conference. Upon consideration of the Application and pertinent portions of the record, the Authority finds that approval of Chattanooga's Application is fair and reasonable and in the best interests of Chattanooga's customers. The Directors unanimously approved Chattanooga's Application.¹

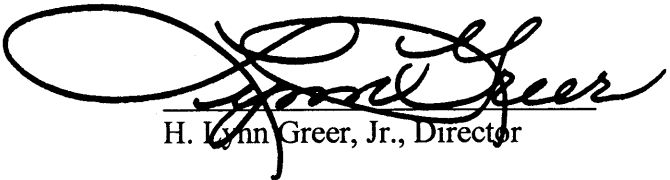
¹ Chairman Malone stated that while it appears that utilities have been allowed recovery of margin losses based on a certain percentage, he would continue to review previous orders of the Authority and the Tennessee Public Service Commission to determine whether the 90/10 split sought by Chattanooga provided the best incentive for utilities to negotiate the highest rate that could be obtained under the same or similar circumstances.

IT IS THEREFORE ORDERED THAT:

1. The Application of Chattanooga Gas Company for approval of a Negotiated Contract with E. I. du Pont de Nemours Company is approved; and

2. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.


Melvin J. Malone, Chairman


H. Lynn Greer, Jr., Director


Sara Kyle, Director

ATTEST:


K. David Waddell, Executive Secretary